

# C hairman's Statement

**In 2001, the Group achieved a satisfactory growth in sales despite adverse trading conditions. Operating profit fell by 6%, a creditable performance given the increasingly tough operating environment. After the strong start to the year in sales, the second half, and particularly the final quarter, saw a distinct weakening with a consequent effect on the operating profit.**

The weak state of the world's major economies, notably the USA and Japan, had a depressing effect elsewhere and hence on the resilience of the markets in which we operate. Turnover increased by 5% in the year to £292 million, as compared with £278 million in 2000. The full year effect of the acquisition, in October 2000, of M&M International, our Italian based solenoid valve and piston actuated valve manufacturer, added 2% to sales. Organic growth was 3%, which was well spread with increases in the UK and Continental Europe. We made good overall progress in the Americas, helped by more favourable exchange rates, but in Asia, Australasia and Africa good underlying growth was cancelled out by adverse exchange rate movements. The overall sales increase was the result of the technical support that we give to our customers in our niche markets and the implementation of sales plans and product developments, which also have the potential to deliver more growth in the future.

The operating profit for the year (before the net gain on disposal of fixed assets) was down by 6% from £43.4 million to £40.8 million; the effect of movements in exchange rates was broadly neutral. The reduction was mainly in the UK, where demand on the factories was well down in the second half of the year due to the lower than expected business levels and de-stocking in our overseas sales companies and distributors. We also increased our investment in sales, marketing and IT resources to ensure that we maximised sales despite the difficult trading conditions. Profits grew well in the Americas but were flat in Continental Europe, including M&M. In Asia, Australasia and Africa, a 9% underlying profit increase was more than eliminated by unfavourable exchange rate movements. The operating profit margin for the Group, therefore, was lower at 14.0% (2000: 15.6%) and return on capital employed was 23%, a reduction from 26% in 2000.

The net interest charge of £2.8 million increased from £2.2 million in 2000 due to the full year effect of the acquisition of M&M and of the shares bought back in 2000. The net interest expense was covered fifteen times by operating profit. A net gain of £0.6 million on disposal of property has been included as a non-operating item. Profit before tax for the year was £38.6 million, and before the non-operating item was £38.0 million (2000: £41.2 million). Amortisation of goodwill was £0.5 million (2000: £0.4 million).

The tax charge was 30.9% compared with 32.0% in 2000. The underlying tax charge, before the non-operating item, was 31.4% (2000: 30.1%). Minority interests were substantially lower at £0.6 million due to greatly reduced profits in Mexico. Earnings per share, before the non-operating item, were 34.6p compared with 37.4p in 2000, a reduction of 7%. The Board is recommending a final dividend of 13.0p per share which, with the interim dividend of 5.6p per share, gives a total for the year of 18.6p, an increase of 3.3%. The cost of the interim and final dividends is £13.8 million, which is covered 1.9 times by earnings before the non-operating item. No scrip dividend alternative is being offered.

Gross capital expenditure for the year was £18.6 million (2000: £16.2 million). We continue to invest in equipment to improve our sales, marketing and manufacturing activities to support future growth. During the year, there were capital disposals of £1.8 million, including property in the UK; the equivalent figure in 2000 was £5.9 million which included property in the USA.

Operating cash flow remained strong in the year and net debt reduced to £40.5 million from £45.6 million at the end of 2000. Gearing at 31st December 2001 was 28% (2000: 34%).

The strength of the Group comes from its reputation in the market-place and the quality and breadth of the product range, both of which are derived from the knowledge and dedication of the people who work in the Spirax Sarco and Watston-Marlow Bredel businesses. It is the knowledge and hard work of our employees which help our customers and our own Group to grow. On behalf of the Board, I thank them for their dedication and support.

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## PROSPECTS

In these difficult market conditions, our knowledge, service and products are needed more than ever by our customers to maintain and develop their businesses. It is clear that there is good potential to continue to grow by capitalising on the fundamental strengths of our market leading position. Tight controls and cost reduction actions, which are under way, will bring progressive benefits. We remain cautious on the outlook as it is far from clear whether the global economy will recover during the year; however we have made a solid start to 2002.

*T. B. Fortune*

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